

REPORT ON EXAMINATION
AS TO
MARKET CONDUCT AFFAIRS
OF
SOUTHERN MUTUAL CHURCH INSURANCE
COMPANY
COLUMBIA, SOUTH CAROLINA
AS OF
DECEMBER 31, 2001
SUBMITTED MAY 31, 2002



SOUTHERN MUTUAL CHURCH INSURANCE COMPANY

July 23, 2002

Ms. Diane H. Irving, CIE, CFE
Chief Market Conduct Examiner
South Carolina Department of Insurance
Office of Market Conduct Examinations
300 Arbor Lake Drive, Suite 1200
Columbia SC 29223

RECEIVED

JUL 28 2002

STATE OF SOUTH CAROLINA
DEPARTMENT OF INSURANCE

201 Greenbush Drive
PO Box 7341
Columbia, SC 29207-0341
803-731-3363
800-922-5329
Fax: 803-691-3336

RE: Response to Report on Examination
as to Market Conduct Affairs of
Southern Mutual Church Insurance Company
of Columbia, South Carolina

Dear Ms. Irving:

The following is a written response to the Report on Examination as to Market Conduct Affairs of Southern Mutual Church Insurance of Columbia, South Carolina as of December 31, 2001. Those items requiring a formal response are as follows:

C. COMPLAINT HANDLING

The following was noted in the review of the complaint files provided by the Insurer:

1. The Insurer's complaints' register did not show the line of business with:

Complaint Handling Standard 1. All complaints are recorded in the required format on the company register and SC Code Ann. § 38-13-10 (A) (as amended) which provides, "the director or his designee shall consider compliance with criteria set forth in the Examiners' Handbook adopted by the National Association of Insurance Commissioners and in effect when the director or his designee exercises his authority under this subsection."

It is recommended the Insurer add this information to the complaints' register

RESPONSE

Southern Mutual Church Insurance has corrected the complaint register to include line of business back to 1996 and will continue to do same going forward.

F. UNDERWRITING, RATING AND POLICYHOLDER SERVICE

Rejections/Declinations:

The Insurer was not able to locate eight (8) or eight percent (8%) of the files requested for review. It is a recommendation the Insurer establish procedures to ensure timely retrieval of records and to comply w/ SC Code Ann. 38-13-20 (B) (as amended).

RESPONSE

Southern Mutual Church Insurance reviewed procedures and appropriate actions have been taken to ensure timely retrieval of records.

G. CLAIMS

Paid Claims:

A sample of one hundred (100) paid claim files were selected by using Automated Computer Language (ACL) software for review from the Database provided by the Insurer. The following were noted:

1. Two (2) or two percent (2%) of the claim files reviewed were not paid claims;
2. Four (4) or four percent (4%) of the claim files were not South Carolina claim records;
3. One (1) or one percent (1%) of the claim files represented a reimbursement transaction and not a paid claim.

The above indicates a total of seven (7) files or seven (7%) were noted as exceptions during this review. It appears the Insurer is in non-compliance with the following:

1. SC Code Ann. § 38-13-120 (as amended), which provides, "All companies

doing any kind of insurance business in this state shall make and keep a full and correct record of the business done by them."

It is recommended the Insurer instigate procedures to ensure adequate data is generated by the computer database.

RESPONSE

1. The two (2) were claims closed with no payment; however, there was loss adjustment exposure (LAE) paid.
2. The four (4) claims files that were not South Carolina claims records were the result of our providing in error a data file which included Georgia claims records. We have confirmed the data is correctly going to the proper states in our system and being reported as such. Southern Mutual Church Insurance has instigated procedure to ensure adequate data is generated by computer database for future Market Conduct data files.
3. This one (1) file reflects a \$49.60 credit. We listed credits on the paid report so they get properly noted and credited in our system.

OPEN CLAIMS:

A review was made of the entire population or sixteen (16) open claim files listed by the Insurer as of December 31, 2001. These claims were reviewed for justifiable reasons of being open and unpaid. The following were noted:

1. Eleven (11) or sixty nine percent (69%) of the open claim files reviewed were not open claims as of December 31, 2001. The extraction of claims data used to determine the open claims history was incorrectly developed by the Information Systems Department. At the conclusion of the examination, the Insurer's staff manually reviewed the same information. They concluded that the eleven claim files were requested in error and did not represent open claims.

It is recommended the Insurer establish procedures to insure proper identification of its claims history data and such information be consistent with market conduct examination requirements.

It appears the Insurer is in non-compliance with the following:

1. SC Code Ann § 38-13-120 (as amended), which provides, "All companies doing any kind of insurance business in this state shall make and keep a full and correct record of business done by them."

RESPONSE

As noted above in your report, Southern Mutual Church Insurance staff manually reviewed the same information and confirmed they were not open at the end of December 31, 2001 and were not on our year-end Outstanding Claims Report. These files were pulled from the wrong database in our POINT System resulting in an incorrect list being provided for the Market Conduct Examiners to sample.

Denied Claims:

A sample of one hundred (100) denied/closed without payment claims files were selected by using ACL software for review from the database provided by the Insurer. These claim files were reviewed for justifiable reasons for closing without payment. The following were noted during this review:

1. Seven (7) or seven percent (7%) of the denied claim files were not South Carolina claims;
2. The Insurer's Claims' Procedures Manual states "if a claim is rejected or denied, it should be done in writing to the person that filed the information with the company." However, the Insurer does not send denial letters to claimants for property claims that are denied. The Insurer states the claims are denied in person or on the telephone and the files are then documented as such.

It appears the Insurer is in non-compliance with the following:

1. SC Code Ann. § 38-13-120 (as amended), which provides, "All companies doing any kind of insurance business in this state shall make and keep a full and correct record of the business done by them."
2. Market Conduct Handbook – Claims – Standard 5 – Claim files are adequately documented.

It is recommended the Insurer institute procedures to ensure an audit trail exists with adequate correspondence within the claim files to determine action taken.

RESPONSE

1. The seven (7) denied claims files that were not South Carolina were the result of our providing in error a data file which included Georgia claims records. We have confirmed the data is correctly going to the proper state in our system and we are reporting as such.
2. We have amended our procedures to include a follow-up letter to our denial made in person or on the phone. This will act as additional documentation to the previous procedure of noting the claims file.

Litigated Claims:

A review was made of the entire population of thirty-five (35) litigated claims files provided by the Insurer as of December 31, 2001. The following were noted during this review:

1. Seven (7) or twenty percent (20%) of the files were not South Carolina litigated claims.

It appears the Insurer is in non-compliance with the following:

1. SC Code Ann. § 38-13-120 (as amended), which provides, "All companies doing any kind of insurance business in this state shall make and keep a full and correct record of the business done by them."

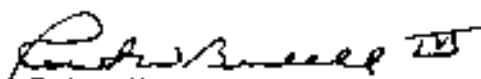
No recommendation has been made, as this appears to be a database problem previously discussed with this Report.

RESPONSE

The seven (7) litigated claims files that were not South Carolina were the result of our providing in error a data file which included Georgia Claims records. We have confirmed the data is correctly going to the proper state in our system and we are reporting as such. Southern Mutual Church Insurance has implemented procedures to ensure adequate data is generated by the computer database for future Market Conduct data files.

Please advise if any additional information is necessary.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert W. Bedell" followed by a stylized flourish or initials.

Robert W. Bedell, III
President

RWB/th

C: Ms. Gwendolyn L. Fuller, General Counsel and Deputy Director



South Carolina
Department of Insurance

Division of Financial Services
Office of Market Conduct Examinations
300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223

Mailing Address:
P.O. Box 100105, Columbia, S.C. 29201-3105
Telephone: (803) 737-6285

JIM HODGES
Governor

ERNST N. CSISZAR
Director of Insurance

July 1, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Robert W. Bedell, III
President
Southern Mutual Church Insurance Company
P.O. Box 9346
Columbia, S.C. 29290-0346

Dear Mr. Bedell:

Enclosed herewith is a copy of the Report on Examination as to Market Conduct Affairs of Southern Mutual Church Insurance Company of Columbia, South Carolina, as of December 31, 2001, made pursuant to S. C. Code Ann. § 38-13-10 (A) (as amended).

Your attention is directed to the following items within the Report:

<u>Item</u>	<u>Page</u>
C. Complaint Handling	11
F. Underwriting and Rating, Policyholder Service	12
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Your written response should be received by this Department within thirty days from the date of this letter. If you have any questions or concerns, I can be reached at (803) 737-6209, or facsimile transmission number (803) 737-6232.

Yours truly,

DIANNE H. IRVING, CIE, CFE
Chief Market Conduct Examiner

cc: Gwendolyn L. Fuller, General Counsel and Deputy Director

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Columbia , South Carolina
May 31, 2002

Honorable Ernst N. Csiszar
Director of Insurance
Department of Insurance
State of South Carolina
Post Office Box 100105
300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223

Sir:

Under authority delegated by you pursuant to S.C. Code Ann. § 38-13-10 (as amended) and in accordance with your instructions and the practices and procedures of the National Association of Insurance Commissioners (NAIC) and the South Carolina Department of Insurance (Department), an examination has been conducted as of December 31, 2001, of the market conduct affairs of

SOUTHERN MUTUAL CHURCH INSURANCE COMPANY
COLUMBIA, SOUTH CAROLINA

hereinafter, generally referred to as the “Insurer,” at its office located at 201 Greenlawn Drive, Columbia, South Carolina. The report of such examination is hereby respectfully submitted.

A. SCOPE OF THE EXAMINATION

The planning process for this full scope market conduct examination commenced September 28, 2001, at the Department. The on-site field examination commenced March 18, 2002, and concluded May 24, 2002. This Report on Examination covers the period from January 1, 1996, through December 31, 2001. Any records subsequent to this date were reviewed, if deemed necessary. This market conduct examination was conducted in accordance with guidelines of the Department and criteria and standards as set forth in the NAIC Examiners Handbook, Volume II Market Conduct (Market Conduct Handbook).

B. INSURER OPERATIONS AND MANAGEMENT

I. History:

The Insurer was incorporated in South Carolina on January 30, 1928, as a mutual insurer by a committee of the South Carolina Baptist Convention and commenced business March 15, 1928. While originally chartered to provide low cost insurance for Baptist churches, later the Insurer expanded its offerings to all churches.

In 1983, the Insurer was granted retroactive federal income tax exemption as not-for-profit under Section 501 (c)(4) of the Internal Revenue Service Code of Laws. The Insurer was exempted from South Carolina premium taxes (except workers' compensation), in 1987, under S.C. Code Ann. § 38-7-180 (1989).

The Insurer, according to its Articles of Incorporation, may provide loans to its members from surplus funds at below market rates of interest but is prohibited from lobbying legislation or participation in political campaigns or any activity, which is not allowed an exempt organization under the Internal Revenue Code.

II. Territory and Plan of Operations:

The Insurer is licensed to write insurance coverage in South Carolina, Georgia, North Carolina, and Alabama. The December 31, 2001 Annual Statement showed the following lines of business in-force: fire, allied lines, commercial multiple peril, workers' compensation, other liability, commercial automobile liability and commercial automobile physical damage. Commercial multiple peril insurance coverage represents the largest (95 %) of its target portfolio. The Insurer markets through employees in South Carolina and through two agency groups with a total of seven agents, in the State of Georgia. The Insurer is not currently writing business in Alabama and North Carolina.

III. Reinsurance Arrangements:

A review of the ceding reinsurance agreements indicated contract clauses, risk transfer and conditions for recognition of ceded reinsurance credit were in compliance with NAIC recommendations and the South Carolina Code of Laws.

Most of the agreements were restructured effective January 1, 2002 due to the impact on the reinsurance industry after the September 11, 2001 terrorist attacks in New York City and Washington, DC. The following is a summary of the Insurer's ceded reinsurance program at December 31, 2001 and subsequent agreements placed into effect starting January 1, 2002:

Reinsurance Ceded

Commercial Umbrella 100% Quota Share:

Reinsurer:	Balis Reinsurance Management
Effective:	January 1, 2001; continuous until canceled.
Class of Business:	Commercial Umbrella

100% Quota Share Boiler and Machinery Coverage:

Reinsurer: Factory Mutual Insurance Company
Effective: April 1, 2001; continuous until canceled.
Reinsurance Limits: \$2,000,000, per risk

Casualty Automobile/Workers' Compensation 90% Quota Share:

Reinsurer: Scor Reinsurance Company
Effective: January 1, 1998; cancelled on December 31, 2001
Class of Business: Commercial Automobile and Workers' Compensation
Policy Limits: \$1,000,000 - each insured, workers' compensation
\$1,000,000 - each accident, as respects single limit automobile
bodily injury liability and property damage.
\$ 100,000 - each accident, as respects physical damage liability.
\$ 50,000 - each person, as respects medical payments and
personal injury protection.
\$ 500,000 - each occurrence, as respects employer's liability
coverage.

Casualty Clash Excess of Loss:

Reinsurer: Scor Reinsurance Company
Effective: January 1, 1998; cancelled on December 31, 2001
New contract effective: January 1, 2001.
Class of Business: All casualty lines including commercial multiple peril (casualty
perils only), auto bodily injury, personal injury protection, physical
damage liability, medical payments under auto, general liability,
directors and officers liability and workers compensation.
Reinsurance Limits: \$1,000,000 - excess \$1,000,000, each occurrence.
Policy Limits: \$1,000,000 - auto bodily injury and physical damage, each
occurrence.
\$ 100,000 - fidelity, each occurrence.
\$1,000,000 - commercial multiple peril and general liability, each
occurrence.
\$ 50,000 - medical and personal injury protection, each person.

\$ 500,000 - directors' and officers' liability and employer's liability, each occurrence.
\$ 300,000 - sexual misconduct, each occurrence.

Casualty Excess of Loss:

Reinsurer: Scor Reinsurance Company

Effective: January 1, 1998; canceled on December 31, 2001
New contract effective January 1, 2002

Class of Business: All casualty lines including commercial multiple peril (casualty perils only), general liability, director's, officers', and trustees' liability.

Reinsurance Limits:

Section A	\$ 400,000 - excess \$100,000, each occurrence.
Section B	\$ 500,000 - excess \$500,000, each occurrence

Limits Per Policy:

\$ 100,000 - fidelity, each occurrence
\$1,000,000 - commercial multiple peril and general liability, each occurrence.
\$ 500,000 - directors' and officers' liability, each occurrence.
\$ 300,000 - sexual misconduct, each occurrence.
\$ 50,000 - medical and personal injury protection, each person.

Property Surplus:

Reinsurers: Scor Reinsurance Company (50.00)%
Hartford Fire Insurance Company (25.00)%
Lloyd's Syndicate (25.00%)

Effective: January 1, 2001; cancelled December 31, 2001

Class of Business: Fire, Allied Lines and Commercial Multiple Peril (property perils only).

Reinsurance Limits: \$2,000,000 - per risk, in excess of minimum retention of \$250,000, occurrence limit of \$12,500,000

Property Surplus:

Reinsurer: Scor Reinsurance Company

Effective: January 1, 2002

Class of Business: Fire, Allied Lines and Commercial Multiple Peril (property perils only).

Reinsurance Limits: \$3,000,000 - per risk, in excess of minimum retention of \$150,000

Workers' Compensation Excess of Loss:

Reinsurer: Scor Reinsurance Company

Effective: January 1, 2000; cancelled December 31, 2001
New contract effective: January 1, 2002

Reinsurance Limits: \$8,000,000 - per risk, in excess of \$2,000,000, each occurrence.

Property Per Risk Excess of Loss Reinsurance Treaty:

Reinsurers: Hartford Fire Insurance Co. (25.00)%
Scor Reinsurance Co. (30.00)%
St. Paul Fire & Marine Insurance Co. (15.00)%
Sumitomo Marine and Fire Insurance
Company of America (5.00)%
Lloyd's Syndicate (25.00)%

Effective: January 1, 2001; cancelled December 31, 2001
New contract effective: January 1, 2002

Class of Business: Fire, Allied Lines and Commercial Multiple Peril (property perils only).

Reinsurance Limits: First Layer:
100% of \$350,000 in excess of \$150,000.
\$1,050,000, per occurrence.

Second Layer:
100% of \$500,000 in excess of \$500,000.
\$1,500,000, per occurrence.

Third Layer:
100% of \$1,000,000 in excess of \$1,000,000.
\$3,000,000, per occurrence.

Property Catastrophe Excess Treaty:

Effective: January 1, 2001; cancelled December 31, 2001
New contract effective: January 1, 2002

Reinsurers:

1. Lloyd's Syndicate

1st Layer 42.00%

2nd Layer 42.00%

3rd Layer 42.00%

4th Layer 47.50%

2. St. Paul Fire & Marine

1st Layer 28.00%

2nd Layer 22.50%

3rd Layer 20.00%

4th Layer 8.00%

3. Hartford Fire

1st Layer 30.00%

2nd Layer 25.00%

3rd Layer 25.00%

4th Layer 20.00%

4. Balis Reinsurance Management

1st Layer 0%

2nd Layer 7.50%

3rd Layer 8.00%

4th Layer 10.00%

5. Sumitomo Marine

1st Layer 0%

2nd Layer 3.00%

3rd Layer 0%

4th Layer 2.00%

6. Hannover Rueckversicherung

1st Layer 0%

2nd Layer 0%

3rd Layer 5.00%

4th Layer 12.50%

Class of Business:

Fire, Allied Lines and Commercial Multiple Peril (property perils only) and Auto Physical Damage.

Reinsurance Limits:

1st Layer: 95% of \$2,500,000 excess of \$1,000,000, per occurrence

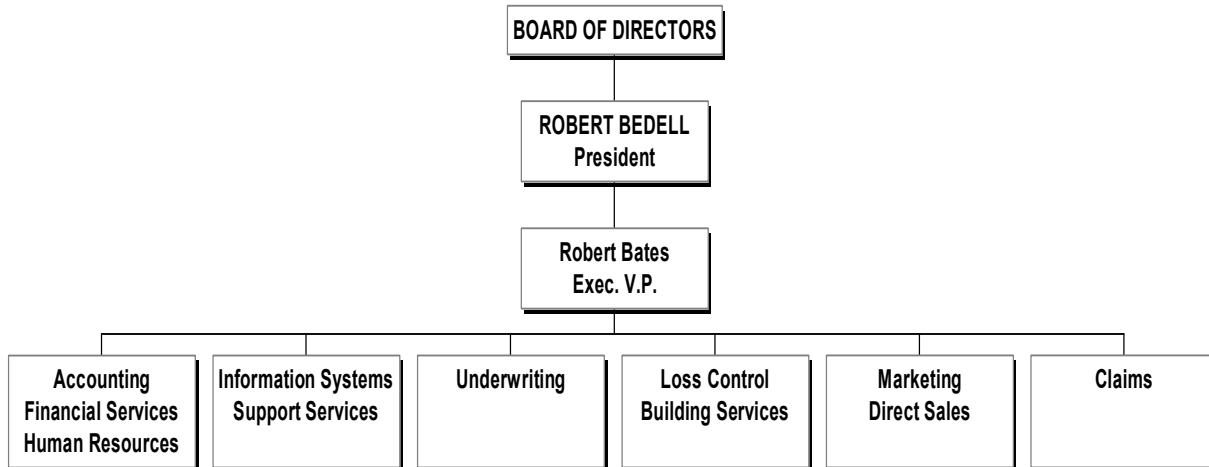
2nd Layer: 100% of \$3,000,000 excess of \$2,000,000, per occurrence

3rd Layer: 100% of \$5,000,000 excess of \$5,000,000, per occurrence

4th Layer: 100% of \$12,500,000 excess of \$10,000,000, per occurrence

IV. Organizational Chart:

The following organizational chart represents the Insurer's home office departments as of December 31, 2001:



V. Officers and Directors:

The following provides the Officers and Directors of the Insurer at December 31, 2001:

Willie Ginn	Chairman of the Board
Robert W. Bedell, III	Director, President and Treasurer
Robert A. Bates	Executive Vice President
Robert F. Motley	Vice President
Bettie C. Richardson	Vice President
Elizabeth L. Brabham	Secretary
Rollin O. Alvoid, Jr.	Director
Richard E. Bailey	Director
Douglas P. Blackwell	Director
Thomas G. Earle	Director
Arthur L. Gross	Director
Flynn T. Harrell	Director
John F. Lister	Director
Thomas N. Rhoad	Director
Paul M. Sullivan	Director
T. Earl Vaughn	Director

VI. Internal Audit:

The Insurer does not have an internal audit function.

VII. Antifraud:

The Insurer's Antifraud Plan was reviewed and appears to be adequate and up-to-date.

VIII. Computer Operations:

The Insurer's computer backup procedures and practices appear to be adequate.

IX. Disaster Recovery:

The Insurer's disaster recovery plan is well documented and areas of responsibilities have been reviewed and appear to be in compliance with Department and NAIC Standards.

X. Five-Year Historical Data:

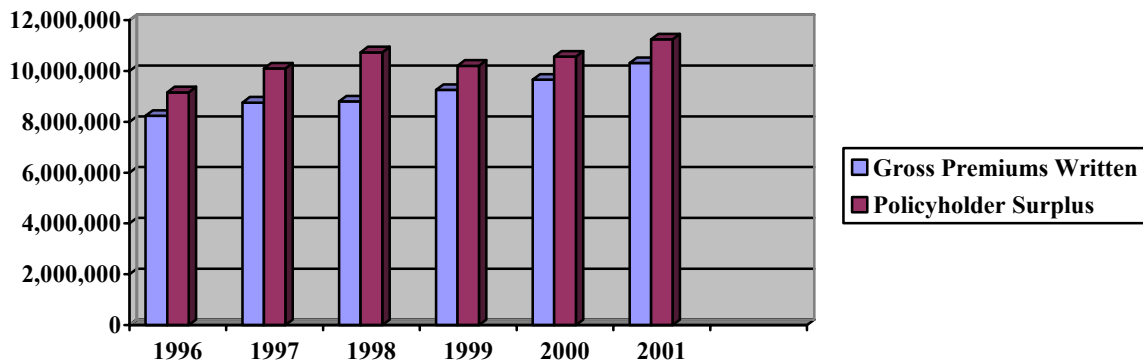
The following shows the operations of the Insurer, as reported in filed annual statements, for the past six years:

(\$000 omitted)

<u>Year Ending</u>	<u>Gross Premiums Written</u>	<u>Net Premiums Written</u>	<u>Net Income</u>	<u>Policyholders' Surplus</u>
1996	\$ 8,238	\$ 3,339	\$ 671	\$ 9,164
1997	\$ 8,761	\$ 3,304	\$ 917	\$ 10,099
1998	\$ 8,805	\$ 3,294	\$ 1,029	\$ 10,735
1999	\$ 9,258	\$ 3,884	\$ 316	\$ 10,207
2000	\$ 9,657	\$ 3,786	\$ 284	\$ 10,570
2001	\$10,312	\$ 3,748	\$ 405	\$ 11,247

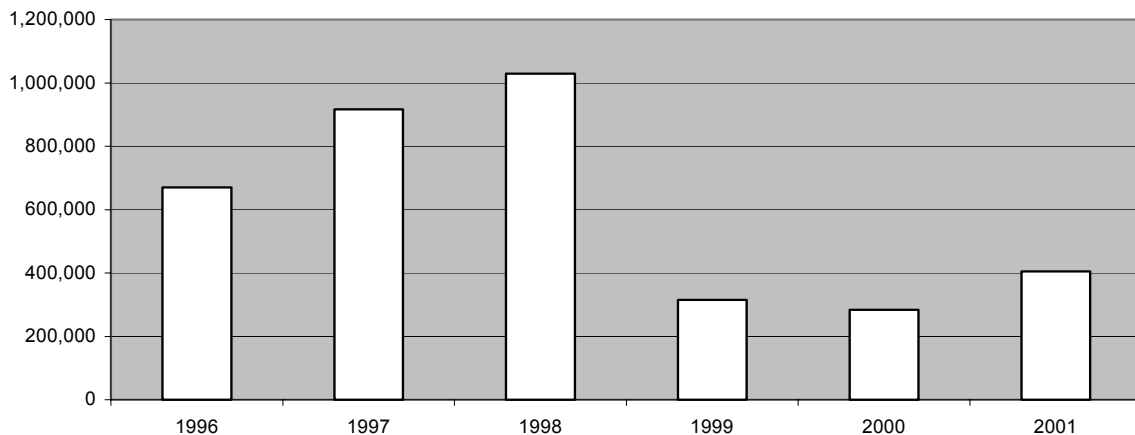
XI. Analysis of Gross Premiums Written to Policyholders' Surplus:

The following provides an analysis of gross premiums written to policyholders' surplus for the past six years:



Gross premiums written to policyholders' surplus appears to have remained fairly constant during the past six years.

XII. Net Income from Operations:



XIII. Privacy Compliance:

The Insurer provided a copy of the "Privacy Policy" used with the sale of its Workers Compensation and Employer Liability insurance product. The cover page of each policy also includes the required Privacy Notice disclosure at the bottom of the page. It appears the Insurer is in compliance with this requirement.

C. COMPLAINT HANDLING

A review was made of the Insurer's procedures for processing consumer or other related complaints to:

- a. determine if any pattern or specific type of complaint was evident;
- b. determine the final disposition of the complaint, and, if actions taken by the Insurer were in conformance with statutes, rules and regulations;
- c. determine the promptness of the Insurer's responses to complaints and inquiries.

A limited scope review of the complaints handling of the Insurer was conducted as a result of the small number of complaints received by the Department. Examination procedures as shown within the Market Conduct Handbook were utilized.

The Department showed a revised total of three (3) complaints during the period under examination. The corrected total of complaints processed were as follows:

<u>Reason for Complaint</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Total</u>
Claims	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>3</u>

The following was noted in the review of the complaint files provided by the Insurer:

1. The Insurer's complaints' register did not show the line of business written.

It appears as if the Insurer is in non-compliance with:

Complaint Handling – Standard 1: All complaints are recorded in the required format on the company complaint register and S.C. Code Ann. § 38-13-10 (A) (as amended) which provides, “the director or his designee shall consider compliance with criteria set forth in the Examiners’ Handbook adopted by the National Association of Insurance Commissioners and in effect when the director or his designee exercises his authority under this subsection.”

It is recommended the Insurer add this information to the complaints' register.

D. MARKETING AND SALES

A review was made of marketing and sales materials presented by the Insurer for the years under review. Policy benefits, limitations and exclusions and terms and conditions all appear to be fairly disclosed with no misleading or incomplete statements being used in the sales materials reviewed.

All documentation reviewed appeared to be in compliance with statutes and regulations with no illegal marketing practices disclosed.

E. PRODUCER LICENSING

The Insurer's listing of South Carolina licensed and inactive producers, for the period under review, was compared to the Department's listing of licensed and inactive producers for the Insurer. No discrepancies in the listings compared were noted. The Insurer uses mostly home office personnel as appointed agents in South Carolina and all are appropriately licensed.

F. UNDERWRITING, RATING AND POLICYHOLDER SERVICE

Underwriting practices and rating procedures were reviewed to determine compliance with appropriate statutes, rules and policy provisions. Files reviewed for the years 1996 through 2001 were haphazardly selected. The review included recalculations of premiums, verification of producers' license, review of applications, rating approvals and form approvals.

Commercial Lines Policies:

From the database provided by the Insurer for new business applications, a sample of one hundred (100) policy files was haphazardly selected for the following lines:

<u>Type of Coverage</u>	<u>Number of Files Reviewed</u>
Multiple Peril	78
General Liability	15
Business Automobiles	6
Workman's Compensation	<u>1</u>
Total	<u>100</u>

No exceptions were noted in the files sampled.

Rejections/Declinations:

From a manual listing prepared by the Insurer, a sample of one hundred (100) files was haphazardly selected. All files reviewed represented Request for Quotes that were declined based on actual inspections of the properties to be insured.

Each request for quote is directed to the Engineering Department and a site location inspection is made. The Engineering Department returns all request for quote sheets back to the Underwriting Department. If a request for quote is declined, the Engineering Department either calls the church contact person or sends a letter, stating the reason(s) why a quote could not be prepared. It is recommended for future examinations that procedures be put in place that would require each declined request be put in writing, acknowledging the date the request was received, along with the date of response. If no quote can be provided, no application is prepared. All Requests for Quotes are never recorded into the Company database, but maintained by a manual register in the Underwriting Department. After the Request for Quote is declined, a file is prepared and the related information is filed. A review of the selected files, show that church groups often make the required changes and improvements in their respective properties and thereby meet the Insurer's underwriting requirements that may later generate an application. The Insurer was not able to locate eight (8) or eight percent (8%) of the files requested for review. It is recommended the Insurer establish procedures to ensure timely retrieval of records and to

comply with S.C. Code Ann. § 38-13-20 (B) (as amended).

Canceled Policies:

From the database provided by the Insurer for canceled policies, a sample of one hundred (100) policy files was haphazardly selected. The following was noted from this review:

1. Seven (7) or seven percent (7%) of the files reviewed represented administrative cancellations created by the Insurer due to data input errors at the time of a major system conversion in early 2001.
2. Twenty-four (24) or twenty-four percent (24%) of the files reviewed were not South Carolina records.

These exceptions were due entirely to an incorrect database provided by the Insurer and was caused at the time the Insurer converted to a new management system in early 2001. No other exceptions were noted from this review. The Insurer has acknowledged the database error issues and has assured the examiners this is not an ongoing problem that would have any effect on daily operations.

Non-renewed Policies:

From the database provided by the Insurer for non-renewed policies, a sample of one hundred (100) policy files was haphazardly selected. No exceptions were noted.

G. CLAIMS

The Insurer's claims' practices were reviewed to determine compliance with South Carolina laws, rules and regulations and policy provisions. The review encompassed paid, open, denied and litigated claims. Samples for claim files reviewed were obtained from various claims listings provided by the Insurer. The following provides an analysis of the claim files reviewed:

Paid Claims:

A sample of one hundred (100) paid claim files were selected by using Automated Computer Language (ACL) software for review from the database provided by the Insurer. The

following were noted:

1. Two (2) or two percent (2%) of the claim files reviewed were not paid claims;
2. Four (4) or four percent (4%) of the claim files were not South Carolina claim records;
3. One (1) or one percent (1%) of the claim files represented a reimbursement transaction and not a paid claim.

The above indicates a total of seven (7) files or seven (7%) were noted as exceptions during this review. It appears the Insurer is in non-compliance with the following:

1. S.C. Code Ann. § 38-13-120 (as amended), which provides, “All companies doing any kind of insurance business in this state shall make and keep a full and correct record of the business done by them.”

It is recommended the Insurer instigate procedures to ensure adequate data is generated by the computer database.

Open Claims:

A review was made of the entire population or sixteen (16) open claim files listed by the Insurer as of December 31, 2001. These claim files were reviewed for justifiable reasons of being open and unpaid. The following were noted:

1. Eleven (11) or sixty nine percent (69%) of the open claim files reviewed were not open claims as of December 31, 2001. The extraction of claims data used to determine the open claims history was incorrectly developed by the Information Systems Department. At the conclusion of the examination, the Insurer’s staff manually reviewed the same information. They concluded that the eleven claim files were requested in error and did not represent open claims.

It is recommended the Insurer establish procedures to insure proper identification of its claims history data and such information be consistent with market conduct examination requirements.

It appears the Insurer is in non-compliance with the following:

1. S.C. Code Ann. § 38-13-120 (as amended), which provides, “All companies

doing any kind of insurance business in this state shall make and keep a full and
correct record of the business done by them.”

Denied Claims:

A sample of one hundred (100) denied/closed without payment claims files were selected by using ACL software for review from the database provided by the Insurer. These claim files were reviewed for justifiable reasons for closing without payment. The following were noted during this review:

1. Seven (7) or seven percent (7%) of the denied claim files were not South Carolina claims;
2. The Insurer's Claims' Procedures Manual states “if a claim is rejected or denied, it should be done in writing to the person that filed the information with the company.” However, the Insurer does not send denial letters to claimants for property claims that are denied. The Insurer states that the claims are denied in person or on the telephone and the files are then documented as such.

It appears the Insurer is in non-compliance with the following:

1. S.C. Code Ann. § 38-13-120 (as amended), which provides, “All companies doing any kind of insurance business in this state shall make and keep a full and correct record of the business done by them.”
2. Market Conduct Handbook - Claims - Standard 5 – Claim files are adequately documented.

It is recommended the Insurer instigate procedures to ensure an audit trail exists with adequate correspondence within the claim files to determine action taken.

Litigated Claims:

A review was made of the entire population or thirty-five (35) litigated claim files provided by the Insurer as of December 31, 2001. The following were noted during this review:

1. Seven (7) or twenty percent (20%) of the files were not South Carolina litigated claims.

It appears the Insurer is in non-compliance with the following:

1. S.C. Code Ann. § 38-13-120 (as amended), which provides, “All companies doing any kind of insurance business in this state shall make and keep a full and correct record of the business done by them.”

No recommendation has been made, as this appears to be a database problem previously discussed with this Report.

H. CONCLUSION

Customary examination procedures as set forth in the NAIC Examiners Handbook, Volume II, Market Conduct, and guidelines of the Department, have been followed in connection with the examination of the market conduct affairs of the Insurer as set forth in this Report on Examination.

In addition to the undersigned, Twyla M. Kelly, Market Conduct Examiner participated in various phases of this examination.

Respectfully submitted,

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